

WAM/RJR "Signature" Marketing Program

PROPOSAL

| <u>Elements</u> | <u>WAM Distributor</u> | <u>WAM Retailer Accrual</u> |
|-------------------------------|------------------------|-----------------------------|
| \$8.79 List Price | | |
| 1.50 Off Invoice | | |
| <u>.33</u> EFT | | |
| 6.96 | | |
| <u>.67</u> Marketing Accrual* | \$.67* | |
| 6.29 | | |
| <u>.40</u> RJR SOC** | \$.40** | |
| 5.89 | | |
| <u>.14</u> WAM Rebate | \$.14 | \$.14 |
| 5.75 | | |
| <u>.14</u> Retailer Accrual | | |
| \$5.61 *** | | |

* Marketing Accrual increased 7¢ for 1996 (put in distributors Accrual Fund monthly, based on Signature purchases from RJR)....this 7¢ is a proposal by RJR pending concurrence by WAM and Distributors.

** Paid to distributor semi-annually on all Signature purchases from RJR.

- \$.40 guaranteed through 12/31/95
- Up to \$.50 maximum through 1996 at 1¢ per RJR SOC

*** Does not include Wholesale Partners earnings opportunity and achieving additional 10¢ SOC opportunity.

| | |
|------------|---|
| \$5.61 | |
| <u>.10</u> | Additional up to a maximum \$.50 SOC |
| 5.51 | |
| <u>.21</u> | Achieving Wholesale Partners objectives |
| \$5.30 | |

(RJR Rep to determine WAM Distributors interest/opinion on proposal for Marketing Accrual to change from 60¢ to 67¢.)

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Meeting Objectives

- Meet with customer to access their commitment to maintain the following remaining elements of the WAM Program.
 - Signature - 14¢ Retailer Accrual
 - 12 Monthly Promotions/Displays – \$1.50 Retailer Accrual
- Clearly explain the value in maintaining the program for distributor, retailer, RJR, and WAM Enterprises.

Key Points to Discuss

- "Signature" brand exclusive to accomplish the following:
 - Ensure distributor achieves 8¢ Partners Category II payment on all RJR/ Forsyth brands by maintaining RJR Share of Savings Category base.
- Provides WAM Retailers the following:
 - 14¢ Accrual on all "Signature" purchased.
 - "Signature" provides the retailer an RJR EDLP brand to maximize payments under RJR Retail Partners Marketing Plans.
 - Provides monthly (12) RJR promotions/displays with a \$1.50 accrual (\$18.00 maximum).
 - Purchasing RJR brands, accepting promotions/displays and having "Signature" maximizes the total earnings opportunity under all RJR Retail Partners Marketing Program.
- The "Signature" pricing and marketing program provides profit opportunity (see attached).
- RJR sees significant value in the WAM Enterprises/WAM distributor concept as follows:
 - WAM Enterprises
 - Produces and coordinates each RJR promotion/display in monthly distributors book (Full Price/Savings).
 - Tracks the \$1.50 retailer accrual.
 - Produces and coordinates each "Signature" promotion in monthly distributors book and tracks the 14¢ retailer accrual.
 - Regularly discusses and meets with each distributor to ensure maximum performance.
 - Works closely with RJR Headquarters to coordinate and achieve results.

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- WAM Distributors
 - Commitment to selling the "Signature".
 - Commitment to selling RJR monthly promotions/displays.
 - Commitment to sell more RJR total brand portfolio to maximize Wholesale Partners earnings opportunity.
 - Creating significant Partnerships with Distributor, Retailer, and RJR Three-way Alliance.

- WAM Retailer
 - Receives significant value-added programs from WAM/RJR.
 - Enhances RJR Partners Marketing Program earnings opportunities.

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INTERNAL USE ONLY

Q. Why RJR got involved in W.A.M?

- A. RJR was looking to evaluate any feasible method by which we can expand the role of Wholesalers in new ways that reduce our cost.

We were excited about getting learning from the W.A.M. proposition and always took the position that if the results were positive, the concept would be expanded across our customer base.

All along, our intent was to gain learning on how we could more effectively run our business utilizing resources and capabilities available at the distributor level.

Q. Why was the 10¢ portion cancelled?

- A. The original intent of the 10¢ accrual was to incent the wholesaler to do many of the things our typical sales person does for us. These included selling our promotions for us, heavily supporting all RJR promotions and brands, including Signature, and the displays/POS that went with Signature. In addition, to get new distribution on other RJR brands.

It was never our intent that the accrual, or any portion of the accrual, would be used as a tool for one wholesaler to steal another wholesaler's business.

Even though it was never our intent that this program would or might be used as a sales tool in dealing with retailers, the unfortunate fact is that it has been perceived in the market as having been used for that purpose. Our non-WAM customer base is up in arms over the 10¢ accrual, and we have found it necessary to cancel the 10¢ accrual feature of the program in order to preserve and maintain our good relations with the trade.

The paragraph listed in quotes below was contained in our letter to WAM distributors.

"We have received several customer inquiries and complaints concerning W.A.M. distributors apparently seeking to use the 10¢ accrual feature of the W.A.M. test to gain market advantages over non-W.A.M. distributors. This is contrary to our purposes in going forward with W.A.M. More important, this unanticipated action by a few direct accounts threatens to put us in a difficult position with our other direct accounts around the country. Canceling the accrual portion of the W.A.M. test is the sensible course to assure continued good trade relations with our customers and adherence to our basic approach of neutrality in competition among our direct accounts."

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